In the Supreme Court of the United States

OCTOBER TERM, 1950.

No. 352

THE TIMKEN ROLLER BEARING COMPANY,
Appellant,

vs.

THE UNITED STATES OF AMERICA,
Appellee.

BRIEF OF APPELLANT

In Opposition to Appellee's Statement Opposing Appellant's Statement of Jurisdiction and Motion to Dismiss or Affirm.

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In Opposition to Appellee's Statement Opposing Appellant's Statement of Jurisdiction and Motion to Dismiss or Affirm.

I. THE APPELLEE'S STATEMENT OPPOSING JURISDICTION AND MOTION TO DISMISS OR AFFIRM WERE NOT FILED AND SERVED WITHIN THE TIME SPECIFIED BY RULE 12, PARAGRAPH 3.

Rule 12 of this Court provides that a statement opposing jurisdiction must be served within 15 days after the appeal papers are served, which in this case expired on August 15, 1950. It was not until August 16, 1950, 16 days after the acknowledgment of service by the Solicitor General on July 31, that the appellee filed in the District Court and served on counsel for the appellant its statement and motion to dismiss or affirm. We call this matter to the Court's attention for such disposition as to it may seem fit pursuant to Rule 12, paragraph 6, which provides that, if there is a failure to comply with its provisions, the Court "may take such action as it deems proper."

II. THE APPELLEE'S MOTION TO DISMISS THE APPEAL SHOULD BE DENIED.

The appellee's motion to dismiss is based upon the ground that the excessive number of assignments of error makes it impossible to determine the grounds upon which the appellant relies in seeking a reversal of the judgment of the District Court. If, therefore, the assignment of errors is fairly sufficient to apprise this Court and opposing counsel of the grounds upon which the appellant relies, the motion is not well taken.

The assignment of errors contains separate headings setting forth general assignments of error each relating to a particular subject as follows: holding of the court; failure to hold; final judgment; failure to make findings of fact and conclusions of law; purported findings of fact; purported conclusions of law; requested findings of fact; and a few general assignments which are self-explanatory. Under each of these general headings are set forth specific assignments of error explaining and supporting the general assignments. While it is true that, due to the nature of this case, and the unusual situation, hereinafter discussed, created by the adoption by the District Court of its memorandum opinion as its findings of fact and conclusions of law, the specific assignments are numerous, we are quite sure that an examination of the assignment of errors itself will disclose, clearly and unmistakably, that it does state the grounds of error upon which the appellant relies in seeking a reversal of the judgment of the District Court.

It is the position of the appellant, specifically asserted and preserved by appropriate action in the court below, that the District Court did not state its findings of fact and conclusions of law in the manner required by law and the Federal Rules of Civil Procedure, and that the memorandum opinion of the Court, adopted by it as its findings

and conclusions, does not meet the requirements of Rule 52 thereof which provides that "if an opinion or memorandum of decision is filed, it will be sufficient if the findings of fact and conclusions of law appear therein" in that it does not include findings of underlying, subsidiary and ultimate facts on all issues in the case, separately found; includes discussion of portions of the evidence and the Court's reasoning with respect thereto; mingles statements of fact with arguments and inferences of the Court; and does not set forth the Court's conclusions of law separately stated.

The greater number of the specific assignments of error relate to alleged defects in purported findings and conclusions in the District Court's opinion, and its failure to make, at the appellant's request, additional findings and conclusions.

As a result of the District Court's action, in adopting its memorandum opinion as its findings of fact and conclusions of law and in overruling the appellant's objections thereto, we were required in preparing our assignment of errors to examine and analyze many of the paragraphs of the memorandum opinion to determine which of them might be regarded as proper findings and conclusions, for we had to proceed upon the assumption that the District Court's memorandum opinion might be upheld by this Court as constituting sufficient findings and conclusions despite our contention to the contrary. In so doing we could not safely undertake to group isolated statements of fact as to each subject contained in the numbered paragraphs which the District Court had adopted as its findings and conclusions, and assign as error that the composite thereof constituted a single finding of fact which was erroneous, for to have done so might have invited the contention that such a broad assignment was too indefinite in form and in contravention of Rule 9 of this Court which

requires that the assignment of errors "shall set out separately and particularly each error asserted." In the latest treatise on the subject of procedure in this Court, *Supreme Court Practice*, by Stern and Gressman (1950), it is stated (p. 210):

> "Error should be assigned to each finding of fact appellant wishes to challenge as unsupported by evidence."

We were thus relegated to assigning separately as error each material statement of fact which we considered to be unsupported by evidence. These are assignments, numbers 42 to 110, inclusive.

The same is true of the District Court's purported conclusions of law, which are the subjects of assignments, numbers 111 to 136, inclusive. It was incumbent upon us to assign as error those which, as applied in the case at bar, we consider erroneous. And, here again, we were required to select the statements which appeared to be the conclusions of law upon which the District Court relied in entering its judgment, and could not safely attempt to interpret the memorandum opinion and group the statements of abstract principles therein contained with other statements which might be specifically applicable to the case at bar. Hence, the necessity of assigning as error, separately and particularly, the statements we deemed to be the purported erroneous conclusions of law of the District Court.

Assignments numbers 135 to 196, inclusive, based upon the District Court's failure to make new and additional findings of fact and conclusions of law, cover in substance those requested in our motion after judgment which do not duplicate findings and conclusions purportedly made by the District Court in its memorandum opinion. The only other conceivable way in which error could have been assigned in this regard would have been to incorporate the requested findings and conclusions by reference, but such an assign-

ment would be of doubtful legality, and in any event, would have required the reviewing court and opposing counsel to examine more material than that contained in these assignments.

As to the assignments relating to the judgment, numbers 10 to 38, inclusive, the provisions therein, except those by which the court retained continuing jurisdiction and assessed costs against the defendant, are either in the nature of general orders of injunction against the appellant or such as may be deemed to be beyond the permissible discretion of an equity court, even assuming that the District Court was right in holding against the appellant on the merits of the case. Moreover, certain provisions constitute violations of the appellant's constitutional rights, *Hartford Empire Company v. United States*, 323 U. S. 386. Error in retaining jurisdiction and assessing costs is assigned on the basis that the entire judgment was erroneous, in order to forestall any possible contention that the appellant has waived its contentions as to the merits of the case by failing to assign error in entering the judgment in its entirety.

In the preparation of the assignments of error we have examined the records in other similar cases, in which, as here, the assignments were necessarily quite numerous.

Counsel for the appellant, in preparing their assignments of error, have attempted so to do in conformity to the applicable rules and general practice. We respectfully submit that there is no defect therein sufficiently grave to deprive the appellant of its right to ask this Court to consider the merits of the judgment of the District Court and thus afford it the only right of review available to it under the law.

III. THE APPELLEE'S MOTION TO AFFIRM THE JUDGMENT OF THE DISTRICT COURT SHOULD BE DENIED.

(1) The Joint Venture.

It should be made clear that the joint venture is the relationship arising from the agreements between the appellant and its British associate, Dewar.

Contrary to the appellee's first contention on this point, the affirmance in *United States v. Bausch & Lomb Optical Company,* 321 U. S. 707, by a divided court of the judgment of the District Court, is a precedent by analogy in the case at bar, although it did not relate to international trade. The opinion of the District Court in that case discloses that the words "joint venture" are not "casually used" therein, contrary to the statement of the appellee. It also demonstrates that the ancillary restraints doctrine is not limited to a situation in which the seller of a business agrees not to compete for a period of time with the buyer thereof, as the appellee's statement suggests. In that case, the District Court stated (p. 398) that the standards set forth in "the classic opinion" in *United States v. Addyston Pipe & Steel Company,* 85 Fed. 271, are "substantially similar" to those set forth in the *Restatement of the Law of Contracts,* §§ 515, 516. The Court then quoted Section 516 of the *Restatement of the Law of Contracts.* The pertinent part of the quotation is as follows (p. 398):

> " 'The following bargains do not impose unreasonable restraint of trade unless effecting, or forming part of a plan to effect, a monopoly: * * *
>
> " 'A bargain by a partner not to interfere by competition or otherwise with the business of the partnership while it continues, or subject to reasonable limitations after his retirement;' "

The Court referred to the statement in the *Addyston Pipe Co.* case that the "very statement of the rule implies that the contract must be one in which there is a main purpose,

to which the covenant in restraint of trade is merely ancillary," and then said (p. 398):

> "*The arrangement, though not a partnership in legal form, is functionally a joint enterprise*[1] in which one will produce and the other market the commodity. United States v. Addyston Pipe & Steel Co., supra, 85 F. at page 281."

The court then held that no monopoly had resulted from the arrangement. In the case at bar, the restraints imposed by the agreements between the appellant, British Timken and French Timken were reasonably necessary to the formation and conduct of the joint venture in the general nature of a partnership between the appellant and Dewar, as well as for other reasons, and no monopoly was intended nor resulted.

Whether such an arrangement is vertical or horizontal is a matter of no moment because the necessary effect in either case would be to prevent competition between actual or potential competitors on the basis of independent price fixing, which is the ultimate core of competition, *United States v. Socony Vacuum Oil Company*, 310 U. S. 150, 226, note 59, citing *Handler, Federal Anti-Trust Laws—a Symposium* (1931), pages 91, *et seq.*

The appellee's second contention is that any agreement, which allocates exclusive territory to actual or potential competitors is illegal *per se*, regardless of whether or not it is ancillary to a lawful main purpose.

As to this contention, it has been held that an agreement, the only purpose of which is to allocate territory, fix prices, or to foreclose the market to others, is illegal *per se* and can never be justified on the basis of reasonableness. Moreover, it has also been decided that a bargain, which might otherwise involve a reasonable ancillary restraint of trade, is illegal if it effects, or forms part of a plan to effect, a monopoly, *United States v. Addyston Pipe*

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[1] Emphasis throughout is ours.

& Steel Company, 85 Fed. 271. However, where there is a valid main purpose to which the restraint is ancillary, and neither a monopolistic purpose or effect, exclusive allocation of territory is not illegal *per se*. It was so held as a matter of common law (which is the basis of the Sherman Act, *Apex Hosiery Company v. Leader*, 310 U. S. 469, 498), in *Fowle v. Park*, 131 U. S. 88, 97, and under the Sherman Act, *Thomas v. Sutherland*, 52 Fed. (2d) 592; *Kentucky Natural Gas Corporation v. Indiana Gas & Chemical Corporation*, 118 Fed. (2d) 831; *Cole Motor Car Company v. Hurst*, 228 Fed. 280, cert. den. 247 U. S. 511. The situation is the same as that relating to price fixing, as to which it is well settled that an agreement, the main purpose of which is to fix prices, is illegal *per se*, *United States v. Socony Vacuum Oil Company*, 310 U. S. 150, *supra*, but that an agreement providing for fixing prices ancillary to a legal main transaction, such as the granting of a patent license, is not illegal *per se*, *United States v. General Electric Company*, 272 U. S. 476, adhered to on this point, *United States v. Line Material Company*, 333 U. S. 287, and *United States v. United States Gypsum Company*, 333 U. S. 364.

We assume that this Court will review the District Court's purported findings of fact which may be contrary to our contentions on this point, which we believe are clearly erroneous and opposed to the uncontroverted evidence in the record, *United States v. United States Gypsum Co.*, 333 U. S. 364. The situation in this respect is not like that presented in *United States v. Yellow Cab Company*, 338 U. S. 338, in which the lower court credited the testimony of witnesses for the successful party, who were observed by the court, instead of documentary evidence offered by the other party. In the case at bar the appellee's case was based on documentary evidence and on portions of depositions taken at the appellant's instance in England, with the exception of the testimony of one witness, the chief sales executive at the time of the appellant, who testified principally as to the nature of its business.

(2) Licensing of the Trademark.

The second important question relates to the right of an American company to license its trademark abroad.

First, the appellee states that "whatever right an American company might have to license its trademark abroad, it would have this right only upon a national basis * * *." Presumably, this means that, if an American company owns a trademark in several foreign countries, it would not be possible to license it in all of such countries to the same person, but it would have to be licensed in each country to a different person. Obviously, no authority is cited for this proposition and, if it is to be a rule of law by which American business should be bound, certainly, a declaration on this subject by this Court is essential.

Second, appellee contends that actually no question of licensing trademarks abroad is involved here, because "appellant does not own the mark 'Timken' in such important areas of potential competition as Great Britain, France and Germany." [2] The District Court made no finding whatsoever as to whether the appellant owned or did not own the mark generally, or in any particular country. The appellee offered no proof as to the ownership of the trademark and the uncontroverted evidence is that the appellant is the owner thereof, not only in the three countries mentioned in the appellee's statement, but in substantially all of the commercially important countries of the world as well.

The difficulty with this position of the appellee is that it proceeds on the assumption that registration and ownership are necessarily one and the same thing, and its confu-

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[2] This is a surprising contention because there is no allegation in the amended complaint that the appellant does not own the trademark "Timken," but instead the prayer for relief supports no possible interpretation other than that it is the owner thereof, because the appellee prays for an order enjoining the appellant from selling, assigning or transferring the mark to British Timken or French Timken in such a way as to exclude its use by the appellant anywhere in the world.

sion on this point is quite apparent. Ever since the joint acquisition by the appellant and Dewar of British Timken and German Timken, and their joint organization of French Timken, in 1927 and 1928, the *registrations* of the trademark "Timken" in some countries have been held by the foreign Timken companies as a matter of convenience. However, ownership thereof by the appellant has been expressly recognized by the parties at all times, as the provisions for its disposition in favor of the appellant at the termination of the 1938 business agreement conclusively demonstrate.

The appellee next states, in this connection, that:

> "In fact, appellant is at present taking steps to obtain a *license* of the mark in Great Britain from British Timken."

This is a serious misconception of the purpose and intent and, in fact, the language of the memorandum agreement between the appellant and British Timken of October, 1949, paragraph I of which provides, substantially, that British Timken "will maintain the registrations obtained by it" in specific countries and the appellant "will be entered as a *registered user*" thereof in any of those or other countries where that is, or shall become, possible.

Third, the appellee contends that the judgment of the District Court provides for nothing that interferes with the right of the appellant to license the trademark. However, an examination of Section VII of the final judgment itself will show how completely unfounded this statement is.

As illustrative of the appellant's position in this regard, and without attempting at this time to refer to all of the probable effects upon the appellant of the judgment of the District Court upon this subject, and particularly Section VII thereof, we call this Court's attention to some of the respects in which this section interferes seriously, with the right of the appellant to license its trademark.

By certain of the terms of Section VII of the judgment, the defendant is enjoined and restrained from entering into, performing, adhering to, maintaining, furthering or renewing, directly or indirectly, any contract, agreement, etc. with British Timken or French Timken for

> "C. The transfer of any right or immunity under a trademark or name, relating to the production of antifriction bearings, upon the condition or requirement that British Timken and/or French Timken * * * shall:
>
> 1. allocate or divide territories or markets for the production, sale or other distribution of antifriction bearings; * * *
>
> 5. exclude any producer or distributor from any market for antifriction bearings, or interfere with or restrict any producer or distributor in competing in any such market; * * *
>
> 8. receive, grant, disclose, render available or exchange, in such a way as to deny any third person access thereto, (a) information, advice, assistance, or rights with respect to any invention, discovery, improvement, practice, formula, pattern, device, process, method, or other technical information relating to the production of antifriction bearings, or (b) any material or machinery used in the production of antifriction bearings, or any information, advice, assistance or rights with respect to any such material or machinery."

This language discloses to what great lengths the District Court went in its judgment on the subject of trade mark licensing. The judgment by its terms not only interferes with the licensing of the trademark, but imposes restrictions with respect thereto which, if applied generally, would make it virtually impossible for an American owner of a trademark to license it abroad.

Thus, under Section VII, C, 1, it would be impossible for the appellant to license a trademark on a territorial basis. If we assume, as the appellant contends, that it is the owner of the trademark throughout the world, it could

not license either British Timken or French Timken to use it in any single country or group thereof unless the license was mutually nonexclusive and covered all countries in which the appellant owned the mark. Otherwise, there would be an allocation or division of territories for the production, sale or distribution of bearings in violation of the judgment. More than that, the appellant as owner of the trademark in the United States, could not license it abroad to British Timken and French Timken and exclude them as licensees, by agreement, from the use of the mark in America as that would likewise involve an allocation of territories in contravention of Section VII, C, 1.

Examining the language of Section VII, C, 5, we find that to comply with the terms thereof, if it appeared desirable to American Timken, as owner of the trademark, to grant a license thereof in a foreign country to British Timken, but it did not wish to license that company in other areas of the world, it could not grant the contemplated license unless it also licensed the use of the trademark to British Timken in every country in the world where the appellant owned the mark.

In Section VII, C, 8, American Timken, as licensor of its trademark, is required to extend to all third parties the same information which it gives to its trademark licensees, British Timken and French Timken, on the subject of its product or the means and methods and equipment used in its manufacture. Generally speaking, under the law of this country, it is essential to the validity of a trademark license that the owner thereof supply information concerning its product to its licensee in order to make sure that the quality thereof is maintained by the licensee. To hold that the licensor must give the same information to all third parties is certainly to establish a new rule in the field of trademark licensing law and one which should be examined by this Court.

The appellee has cited no authority in support of the provisions of the judgment to which specific reference has just been made, and it is the appellant's view that the District Court's judgment on the subject of trademark licensing is not supported by any authority.

The principal cases relied upon by the appellant upon the general subject of the licensing of trademarks, are those relating to the use of patents and copyrights, namely, the *National Lead, Ethyl Gasoline Corporation, Interstate Circuit, Inc.,* and *Paramount Pictures* cases but do not sustain the broad proposition for which they are cited by the appellee.

The only trademark decision referred to is the *Rectanus* case, and it did not involve trademark licensing.

Apparently, the appellee's purpose in referring to patent and copyright cases is to intimate that the rights of the owner of a trademark are less than are those of the owner of a patent.

This idea of a lesser right in a trademark as compared with that in a patent is very confusing. Practically, a trademark is entirely different from a patent. Patents and copyrights are limited monopolies granted because the public is interested in having the invention or creation disclosed, described and registered. The patentee may grant as many licenses as he pleases. In contrast, a trademark is not the result of monopoly but is a symbol to distinguish one product from another competing product. It serves as an indication of origin or as a guarantee of quality of certain products, and when such mark is used by the owner or by the licensee, it must be used under conditions which preserve its functions to serve as such a symbol. Restraints on manufacture in connection with patent licensing must be carefully circumscribed and restricted, but this is not so as to a trademark, the value of which depends upon its use and its function as a symbol.

The owner of a patent may prevent, by reason of his patent monopoly, other persons from using or manufacturing the patented process or product but the owner of a trademark cannot prevent other persons from manufacturing the identical article covered by the mark. He can only prevent third parties from applying the same symbol to the goods as is applied by him as the owner of the trademark. Thus, the theory that the licensing of a trademark is necessarily restrictive is a false one, and the contention that cases relating to the licensing of patents and copyrights are necessarily applicable to a case which involves the licensing of a trademark, and is not a sound one.

The District Court regarded this question as being new and important, for in paragraph 192 of its memorandum opinion, this statement is found:

> "The conflict between the Sherman Act and the limited patent monopoly has been the subject matter of innumerable litigated cases. The courts have attempted to harmonize the opposing basic policies inherent in their respective economic concepts. They tried to fit the antitrust laws within the frame work of the constitutional grant of a patent monopoly. *Whether within the provisions of the Sherman Act commerce may be restrained to the extent that it is reasonably ancillary to protect a trademark has not been decided or discussed by the courts.*"

(3) Divestiture.

The equity jurisdiction of the District Court is prescribed by Section 4 of the Sherman Act, 26 Stat. 209, which provides that it is vested with jurisdiction "to prevent and restrain violations" of the Sherman Act. We contend that under the decisions of this Court divestiture can be decreed only (1) where the property involved was acquired illegally in the conduct of a combination to monopolize, in order to take from the defendant the fruit of his wrongdoing, or (2) where it has been used for the purpose of carrying out a

combination in restraint of trade, in order to prevent resumption of past illegal practices. The appellee goes further, contending that divestiture can properly be ordered for the purpose of removing an inducement to the defendant not to compete. The only purpose of such divestiture would be "to prevent and restrain" the defendant from failing to compete, but the Sherman Act "does not compel competition," *United States v. United States Steel Corporation*, 251 U. S. 417, 451. It is demonstrable that *United States v. Crescent Amusement Company*, 323 U. S. 173, *United States v. National Lead Company*, 332 U. S. 319, and *United States v. Paramount Pictures, Inc.*, 334 U. S. 131, cited by the appellee involved findings of fact which justified divestiture on one or both of the two bases therefor above set forth. That portion of the decision in the *National Lead Co.* case which sustained the action of the District Court in refusing to require divestiture of domestic plants because there was no finding by the lower court that these plants "had been acquired or used in a manner violative of the Sherman Act" (p. 351) sustains the appellant's position.

Illegal acquisition was not in issue in the case at bar, because the amended complaint charged that the conspiracy commenced in 1928 (after the acquisition by the appellant and Dewar of British Timken stock in 1927), and the District Court made no finding that such acquisition was illegal nor an integral part of the agreement imposing alleged restraints.

There is no finding by the District Court that the appellant ever used its stock in either British Timken or French Timken to control them, but, on the contrary, the District Court held that Dewar exercised control of the ordinary affairs of these companies (Memorandum Opinion, pars. 44, 54). The appellee's claim that appellant exercised control over British Timken through its one out of four directors, is patently unsound. Its statement that the record

discloses that the appellant in 1935 used its influence to bring about a 30 year extension of the 1935 business agreement is contrary to the uncontroverted evidence which discloses that such extension was insisted upon by the English brokers who negotiated with Dewar for the sale by the appellant and Dewar of a portion of their stock in British Timken. There was no finding by the District Court on this point, because the reason for the extension was considered unimportant (Memorandum Opinion, par. 67).

Therefore, there is here presented the important question as to whether the District Court, under its jurisdiction to "prevent and restrain" violations of the Sherman Act, could properly order divestiture merely to induce competition rather than to prevent and restrain interference with it.

Respectfully submitted,

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